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TAGS: OECD, ECON
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC): REVIEW OF GREECE, JUNE 9

REF: (A) EDR(78)11 AND ADDENDA; (B) PARIS 17810;
(C) ATHENS 4742; (D) ATHENS 4794

1. SUMMARY: EDRC EXAMINATION OF GREECE WAS, TO AN
EXTENT, SHORT-CIRCUITED ON QUESTION OF SHORT-TERM POLICY
BY ANNOUNCEMENT BY GREEK DELEGATION THAT GOVERNMENT WAS
PREPARING TO ANNOUNCE MAJOR POLICY SHIFT TO BATTLE
INFLATION, AS SECRETARIAT HAD RECOMMENDED IN ITS DRAFT
SURVEY. GREEK DELEGATION (LED BY LEMONIAS, MINISTRY OF
COORDINATION) WOULD NOT PROVIDE SPECIFICS OF POLICY PACK-
AGE, THUS EDRC UNABLE TO GIVE OPINION ON ADEQUACY OF PRO-
POSED MEASURES. ALTHOUGH SECRETARIAT RECOMMENDS CONSEN-
SUS TYPE INCOMES POLICY, EDRC SKEPTICAL THAT INSTITU-
TIONAL FRAMEWORK EXISTS IN GREECE FOR EFFECTIVE IMPLI-
MENTATION. GREEK DEL DISAGREED WITH SECRETARIAT'S ANALY-
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SIS OF MEDIUM-TERM PROSPECTS WHICH, IN GREEK OPINION,
IGNORED BOTH RELATIVE SPECIALIZATION OF GREEK ECONOMY
IN EXPORTS OF SERVICES AS WELL AS IMMINENT ENTRY INTO
EEC. EDRC REQUESTED SECRETARIAT AND GREEK DELEGATION
TO REWORK SECRETARIAT'S ANALYSIS OF MEDIUM TERM IN LIGHT
OF PARTICULAR HISTORY OF GREEK ECONOMIC DEVELOPMENT.
FOR MEDIUM TERM, GREEK DELEGATION EMPHASIZED IMPORTANCE

OF STRONG INTERNATIONAL TRADE CLIMATE TO PROVIDE MARKET FOR EVENTUAL GREEK INDUSTRIAL EXPORTS. USOECD APPRECIATES CONTRIBUTION AND PARTICIPATION OF E/C OFFICER BLACK IN EDRC REVIEW. END SUMMARY

2. CURRENT TRENDS AND FORECAST: GREEK DEL EXPLAINED THAT POLITICAL BACKGROUND IN GREECE HAD REQUIRED GOVERNMENT TO CONCENTRATE ON GROWTH, SOMEWHAT AT EXPENSE OF INFLATION, IN RECENT PERIOD FOLLOWING RESTORATION OF DEMOCRATIC INSTITUTIONS. GOVERNMENT NOW FEELS ITSELF IN A POSITION TO SWITCH EMPHASIS, PERHAPS SOMEWHAT OVERDUE, TO COUNTER INFLATIONARY TRENDS AND WILL ANNOUNCE A NEW SET OF POLICY MEASURES "IN A FEW DAYS" WHICH WILL AMOUNT TO A MAJOR STABILIZATION EFFORT USING "CLASSICAL" TOOLS OF MONETARY AND FISCAL POLICY. NEW POLICY, OF WHICH LEMONIAS WOULD NOT GIVE DETAILS CITING POSSIBILITY OF PRESS LEAKS (PER ATHENS 4794 AND EDRC CHAIRMAN'S STATEMENT AT BEGINNING OF DAY ON SIMILAR INCIDENT CONCERNING SWISS REVIEW), REPORTEDLY DEVISED DURING EXTENSIVE SERIES OF MEETINGS WITH NEW MINISTERS OF FINANCE AND COOPERATION. LEMONIAS INDICATED THAT MAIN THRUST AND MANY COMPONENTS OF POLICY PACKAGE WERE FULLY IN CONCORD WITH SECRETARIAT'S ANALYSIS AND RECOMMENDATIONS IN DRAFT SURVEY. GREEK DEL REVIEWED IN SOME DETAIL RECENT BEHAVIOR OF ECONOMIC AGGREGATES WITHOUT DIFFERING IN ANY SUBSTANTIVE WAY FROM DESCRIPTION PRESENTED BY SECRETARIAT -- NOTING LIMITED OFFICIAL USE

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THAT 1977 GROWTH SHORTFALL (3.5 PERCENT FORECAST) DUE ALMOST ENTIRELY TO BAD CROPS AND WEAK EXPORT MARKETS FOR MANUFACTURES, LATTER INVOLVING ALSO VARIOUS ADMINISTRATIVE CONTROLS IN KEY MARKETS RESTRICTING CERTAIN IMPORTS (E.G., TEXTILES, SHOES). OUTLOOK FOR 1978 NOW UNCERTAIN, UNTIL POLICY PACKAGE IS ANNOUNCED AND EVALUATED, BUT GROWTH RATE EXPECTED TO REMAIN AROUND 5 PERCENT, WITH INFLATION IN 11.5 TO 12 PERCENT RANGE, AS OPPOSED TO 13 PERCENT EXPECTED WITHOUT NEW MEASURES.

3. ECONOMIC POLICY: FISCAL POLICY WILL BE marginally TIGHTENED IN NEW POLICY STANCE BOTH BY SOME EXPENDITURE CUTS AND POSTPONEMENTS AS WELL AS INTENSIVE STUDY OF TAX RETURNS TO DETECT EVASION, WHICH EXPECTED TO YIELD 5 BILLION DRACHMAS EXTRA REVENUE. MEDIUM-TERM (3-YEAR)

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BUDGET WILL BE DRAWN UP FROM 1979 AND CONSOLIDATED BUDGET INCLUDING CENTRAL GOVERNMENT, LOCALITIES, CURRENTLY NON-BUDGETED ACTIVITIES AND PUBLIC ENTERPRISES WILL ALSO BE INTRODUCED TO TRY BETTER TO MEASURE, AND THUS TO CONTROL, OVERALL THRUST OF GOVERNMENT POLICY. ZERO BASED BUDGETING WILL ALSO BE ADOPTED AS WILL VAT (REPORTEDLY "NOT VERY FAR OFF"), CAPITAL TAX AND SURPLUS VALUE TAX ON HOUSING EVOLVING INTO CAPITAL GAINS TAX. ON OVERALL TAX STRUCTURE, SECRETARIAT AGREED TO REVISE ITS PRESENTATION OF FISCAL POLICY TO PUT DIRECT TAXES AND FISCAL DRAG IN BETTER PERSPECTIVE, FOLLOWING UP ON POINT RAISED BY U.S. DEL. RESPONDING TO SECRETARIAT QUESTION ON PUBLIC CONSUMPTION/INVESTMENT MIX, LEMONIAS NOTED STRONG PRESSURE ON GOVERNMENT FOR CURRENT PROGRAMS WHICH HAS RESULTED IN ANNUAL SHIFTS FROM INVESTMENT TO CURRENT BUDGET DURING BUDGET PREPARATION; PUBLIC INVESTMENT, FOLLOWING HIGH LEVELS IN EARLY 70'S, HAS ESSENTIALLY THEREFORE PLAYED BALANCING ROLE FOR LAST SEVERAL YEARS TO REACH FISCAL STANCE DESIRED. ON MONETARY SIDE, BANK OF GREECE REP DENIED THAT BANK HAD INSUFFICIENT INSTRUMENTS (AS SUGGESTED BY SECRETARIAT) TO CONTROL MONETARY AGGREGATES, BUT RATHER EXPLAINED BULK OF 1977 MONETARY OVERSHOOT BY AGRICULTURAL SHORTFALL WHICH BOTH REQUIRED

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EXTRA NEW FINANCING FOR FARMERS AND PREVENTED THEIR REPAYMENT OF OUTSTANDING CREDIT. IN CONTEXT OF NEW POLICY ORIENTATION, BOG HAD ALREADY RAISED CENTRAL BANK OVERDRAFT PENALTY AND CUT BACK ON HOUSING CREDIT. AS INFLATION RATE COMES DOWN, BANK WILL BE ABLE TO RECONCILE ITS POSITION VIS-A-VIS CENTRAL GOVERNMENT AS LATTER IS ABLE ONCE AGAIN TO ISSUE LONG-TERM BONDS DOMESTICALLY, THUS MOPPING UP SOME LIQUIDITY AND GIVING BOG GREATER CONTROL OVER FUTURE LIQUIDITY GROWTH.

4. INCOMES POLICY WAS A FOCAL POINT OF EDRC DISCUSSION, GIVEN EMPHASIS PLACED ON IT BY BOTH SECRETARIAT AND GREEK DELEGATION. SEVERAL DELEGATES QUESTIONED WHETHER GREEK SOCIAL INSTITUTIONS HAD DEVELOPED TO THE POINT WHERE A CONSENSUS INCOMES POLICY COULD BE EFFECTIVELY CARRIED OUT AND WHETHER PUBLIC SECTOR, GIVEN RECENT PERFORMANCE, COULD BE A LEADER ("PILOT SECTOR") IN EXERCISING WAGE AND PRICE RESTRAINT. GREEK DEL AGREED THAT UNIONS AND TO SOME EXTENT BUSINESS ASSOCIATIONS LACKED DISCIPLINE ESPECIALLY AT GRASS ROOTS LEVEL, BUT CITED NEW COUNCIL ON ECONOMIC AND SOCIAL POLICY AS STEP TOWARDS DEVELOPING NATIONAL CONSENSUS WHICH MUST BE GIVEN A TRY. LEMONIAS ADDED THAT GOVERNMENT COULD NOT EFFECTIVELY INTERVENE IN WAGE/PRICE PROCESS UNLESS AND UNTIL SOME CONSENSUS, PARTICULARLY ON PROPER ROLE OF GOVERNMENT, WAS ARRIVED AT. HE REJECTED COMPULSORY WAGE/PRICE GUIDELINES AS UNACCEPTABLE ALTERNATIVE. RECENT HIGH WAGE INCREASES IN PUBLIC SECTOR WERE ATTRIBUTED TO TOTAL REVAMP OF PUBLIC EMPLOYEES' COMPENSATION SYSTEM WHICH ADDS ABOUT 17 PERCENT TO SALARIES IN 1978 AND 1979 TO LIMITED OFFICIAL USE

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REPLACE VARIOUS BONUSES AND FRINGE BENEFITS. BEYOND THAT ONE-TIME BULGE, "NO INCREASES WILL BE GRANTED IN 1978 OR 1979 AND A HIRING FREEZE WILL BE INSTITUTED." IN PRIVATE SECTOR, GREEK DEL SUGGESTED IT IS TOO LATE TO INFLUENCE 1978 COSTS AS WAGE NEGOTIATIONS ARE COMPLETE, BUT HOPES NEW POLICY ORIENTATION AND POSSIBLY NEW AGE BARGAINING ARRANGEMENTS CAN SUBSTANTIALLY REDUCE NOMINAL 1979 SETTLEMENTS. LEMONIAS FELT INCOMES POLICY WOULD HAVE BETTER CHANCE OF SUCCESS TODAY THAN IN RECENT PAST SINCE "CONTROLLABLE" PART OF PRICE FORMATION (E.G., WAGES AS OPPOSED TO IMPORTED GOODS PRICES) IS MUCH HIGHER NOW (ESTIMATED AT 40 PERCENT OF PRICE DETERMINANTS).

5. BALANCE OF PAYMENTS AND MEDIUM-TERM CONSIDERATIONS: GREEK DELEGATION (LEMONIAS AND PAPAGEORGIOU OF BANK OF GREECE) TOOK EXCEPTION TO SECRETARIAT'S ANALYSIS OF ROLE CURRENT ACCOUNT, INVISIBLE RECEIPTS AND EXCHANGE RATE IN

OVERALL GREEK ECONOMIC, PARTICULARLY INDUSTRIAL, DEVELOPMENT. AS FIRST POINT, GREEKS CITED HISTORY OF GREEK ECONOMY AS SPECIAL FACTOR WHICH ESSENTIALLY VOIDED TRADITIONAL TRADE-CENTERED ANALYSIS OF EXCHANGE RATE, SINCE WORKERS' REMITTANCES, SHIPPING RECEIPTS, TOURISM AND CER-

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TAIN TRANSFERS AND FOREX DEPOSITS ARE CONSIDERED BY GREEK AUTHORITIES AS STABLE AS, IF NOT MORE STABLE THAN, EARNINGS ON GOODS EXPORTS. GREECE SHOULD THEREFORE BE SEEN AND TREATED AS A COUNTRY SOMEWHAT SPECIALIZED IN EXPORT OF SERVICES. SECONDLY, GREEKS FELT SECRETARIAT ANALYSIS IGNORED RESTRICTIVE TRADE PRACTICES FACED BY GREEK EXPORTS AND LIMITED INTERNAL GREEK MARKET WHICH COMBINED MITIGATE AGAINST INDUSTRIAL DEVELOPMENT. WHEN GREECE ENTERS EUROPEAN COMMUNITY (5-YEAR PLAN USES 1980 MEMBERSHIP DATE), BOTH PROBLEMS WILL BE VIRTUALLY OVERCOME -- AND OUTLOOK FOR FURTHER INDUSTRIALIZED WILL BE RADICALLY DIFFERENT AND STRONGER. LEMONIAS, BUT NOT PAPAGEORGIOU, ACCEPTED EVENTUAL NEED FOR RESTRUCTURED AND STRONGER TRADE ACCOUNT INCLUDING DIVERSIFIED INDUSTRIAL EXPORTS (ALSO APPARENT AIM OF 5-YEAR PLAN) -- BUT DID NOT BELIEVE EXCHANGE RATE COULD BE FAULTED FOR WEAK INDUSTRIAL DEVELOPMENT AND MANUFACTURING INVESTMENT, CITING BANK OF GREECE STUDIES WHICH INDICATE THAT GREEK

COMPETITIVE POSITION IS SATISFACTORY ESPECIALLY AFTER
RECENT DEPRECIATION. NEW FIVE-YEAR PLAN ACCEPTS SMALL
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CURRENT ACCOUNT DEFICIT AS NORMAL AS WELL AS PECULIAR
GREEK CURRENT ACCOUNT COMPOSITION. SIX-PERCENT GROWTH
TARGET TO 1982 SHOULD BE SEEN AS INDICATIVE SINCE PRIN-
CIPAL FOCUS OF PLAN WILL BE ON QUALITATIVE INSTITUTIONAL
AND STRUCTURAL CHANGES NECESSARY TO PREPARE ENTRY INTO
EEC. GREEKS FEEL, HOWEVER, AT LEAST 5 PERCENT GROWTH
REQUIRED TO AVOID BOTTLENECKS DUE TO LOW CAPACITY CREA-
TION.

6. CONCLUSIONS: GREEK DELEGATION'S ANNOUNCEMENT OF
IMMINENT POLICY SHIFT IN GREECE TOWARDS STABILIZATION
TOOK MUCH OF WIND OUT OF SECRETARIAT SAILS, AS ITS CON-
CLUSIONS AND RECOMMENDATIONS WERE, ACCORDING TO GREEK
DELEGATION, ALREADY ACCEPTED. FINAL SURVEY WILL BE HELD
UP UNTIL DETAILS OF STABILIZATION PACKAGE CAN BE INCOR-
PORATED, REQUIRING EXTENSIVE REVISION OF POLICY, FORE-
CAST, CONCLUSIONS AND RECOMMENDATIONS SECTIONS OF DRAFT
SURVEY. EDRC WITHHELD JUDGEMENT ON SUFFICIENCY OF NEW
PACKAGE SINCE IT WAS NOT FURNISHED ANY DETAILS OF PRO-
POSED POLICY ACTIONS. SECRETARIAT AND GREEK DELEGATION
WILL ATTEMPT TO REWORK BOP AND MEDIUM-TERM ANALYSIS
BETTER TO REFLECT PECULIAR ASPECTS OF GREEK EXTERNAL
SECTOR AND POTENTIAL ENTRY INTO EEC. GREEK DELEGATION,
DRAWING ON LATTER POINT, SUGGESTED REVISED SURVEY SHOULD
MORE CLEARLY SPELL OUT DEPENDENCE OF FUTURE ECONOMIC
DEVELOPMENT ON STRONG INTERNATIONAL CLIMATE AND REDUC-
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